

CITY OF SOUTH EL MONTE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

November 2012



JOHN CHIANG
California State Controller

November 19, 2012

The Honorable Luis A. Aguiñaga
Mayor of the City of South El Monte
1415 N. Santa Anita Avenue
South El Monte, CA 91733

Dear Mayor Aguiñaga:

The State Controller's Office audited the City of South El Monte's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required; however, we identified a procedural finding.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Anthony R. Ybarra, City Manager
City of South El Monte
Chuck Adams, Finance Director
City of South El Monte

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Finding and Recommendation	5

Audit Report

Summary

The State Controller's Office (SCO) audited the City of South El Monte's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. However, we identified a procedural finding.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of South El Monte accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2007, through June 30, 2011, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2007, through June 30, 2010.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on September 17, 2008, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on August 21, 2012. Chuck Adams, Finance Director, responded by e-mail dated September 27, 2012, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of South El Monte's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD

Chief, Division of Audits

November 19, 2012

Schedule 1— Reconciliation of Fund Balance July 1, 2010, through June 30, 2011

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 221,166	\$ 37,409	\$ 258,575
Revenues	566,456	—	566,456
Total funds available	787,622	37,409	825,031
Expenditures	(582,576)	(37,409)	(619,985)
Ending fund balance per city	205,046	—	205,046
SCO adjustment	—	—	—
Ending fund balance per audit	\$ 205,046	\$ —	\$ 205,046

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2103, 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2007, through June 30, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2011.

Finding and Recommendation

FINDING— General Fund cash impairment

During our audit, we found that the city's General Fund cash account reported month-end negative balances in the months of August 2009, October through December 2009, December 2010, March 2011, and April 2011. Our review of the General Fund cash month-end balances, from July 2011 through September 2011, subsequent to the audit period, also showed a negative balance in August 2011 and September 2011.

When the General Fund cash balances are negative, it may indicate that cash from other funds in the investment pool, including restricted funds such as cash in the Special Gas Tax Street Improvement Fund, is being used to pay for General Fund-related expenditures. Thus, any of these other funds that have a positive cash balance are potentially impaired and may not be able to make timely payments of required expenditures that should be made from those funds. The city has not demonstrated that it has restored the financial health of the General Fund and thus, it is inadvertently affecting the integrity of the gas tax fund.

Street and Highways Code section 2118 imposes a mandatory duty on the Controller to ensure that the city deposits money received from the highway users tax fund into a separate bank account when deemed necessary.

Recommendation

The city must establish a separate bank account for the state gas tax fund money. This account should be used to record all deposits and expenditures against the money. The city has 30 days to provide the State Controller's Office with proof that a separate bank account has been established. The bank account shall remain open until the city provides evidence that, over a reasonable period of time, it has restored the financial health of the General Fund.

City's Response

The city does accept the findings and recommendations of the audit report. One thing I wish to mention is that we have established the separate bank account for the gas taxes received [sic] and disbursement of these funds by the city.

SCO's Comment

On October 3, 2012, the city provided proof that a separate bank account was established for the State Gas Tax Fund.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>